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SUBJECT: BRINGING IT BACK HOME; AN IRAQI BUSINESS RETURNS

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¶1. (SBU) Summary: In a recent meeting with an Iraqi owned electrical equipment manufacturer which re-opened in 2008, the owners expressed optimism for 2009 and made special mention of plans to expand their business with a self funded 4 Million USD manufacturing facility. While noting that gross sales exceeded their goal by over 30% in 2008, the company cited inefficiencies relating to imports and lack of expertise within the GOI regarding electrical specifications as barriers to even better performance. Post sees anecdotal evidence that this example is indicative of a broader trend of returning Iraqi businesses and capital from abroad. End Summary.

A View from the Merchant Class

¶2. (U) Econoff and PRT advisor recently met with the owners of Baghdad based El Ebtida ("Innovation") Company to discuss their views on the current business climate in Iraq. El Ebtida is an electrical design, manufacturing and engineering firm based in Baghdad, but with offices in Amman and Dubai. In business for over 20 years (with its operations in Iraq shut down from 2003-2007) El Ebtida's focus is power distribution from the sub-station level down to individual panel distribution for commercial and residential clients. El Ebtida has representation agreements with the German firm Schneider Electric and the French Socomec, and does business with several other international firms.

3.(SBU) As members of a Shia family from Najaf, the two brothers who own El Ebtida expressed frustration over the difficulty of doing business during the Saddam era, both before and especially during sanctions. Long members of Iraq's merchant class, the brothers described learning business from their father, also an engineer, who helped them establish El Ebtida in 1988. While profitable, they found the business and security environment they encountered in 2003 to be untenable and chose to shutter their operation and move their families and what assets they could to Jordan and the UAE.

A Change of Heart

¶4. (U) One owner stated that "When we left Iraq in 2003, I said we would never come back," and went on to describe how he worked to transfer assets out of the country, all the while fearing that Saddam's agents were listening to his phone calls and would arrest him. (Note: During the previous regime, it was illegal to transfer cash out of the country. End Note) One brother went to Dubai and the other to Amman to join others in the Iraqi Diaspora who gathered in the two cities. They continued to utilize their regional contacts to conduct business, invested in real estate and worked to re-establish themselves and their families abroad.

¶5. (U) When asked what prompted the decision to return to

Iraq, the brothers both cited PM Maliki's confrontation of the Mahdi Army in southern Iraq in April of 2008, stating "we were inspired by this, it showed that Iraq has leaders who were willing to move beyond traditional alliances. He is a strong leader." The brothers began returning to Baghdad immediately after and soon took up residence in the city once again; both plan to bring their wives and children back at the end of the current school year.

Investing in the Future

¶16. (U) The owners of El Ebtida were forthcoming with their financial information and indicated that they worked successfully with the Ministry of Electricity, the Ministry of Oil and the National Oil Company. Citing gross sales of over 6.8 million USD last year, El Ebtida sees continued growth for 2009 as they pursue a more diversified client base and expansion of direct business with international companies.

¶17. (U) El Ebtida presented plans for a new electrical component manufacturing facility set to begin in this summer. Planned for over 2500 square meters and two levels, the new plant will employ approximately 40-50 new employees and require a capital expenditure of approximately 4 million USD. The owners appreciated PRT advisor's offer to show them a nearby industrial park that may prove a suitable location for the new facility. El Ebtida also informed us of a monthly training program on electrical technology which they offer at no cost to key GOI ministries in order to inform and educate their existing and possible future clients.

Challenges Remain

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¶18. (SBU) While El Ebtida sees a bright future for the Iraqi economy in the coming years, the brothers expressed concerns as well. Due to poor transport services in Iraq, sourcing components and parts from Europe, the U.S. and Asia presents logistical challenges that decrease efficiency while increasing costs. While not an ideal or efficient solution, El Ebtida noted that it is faster and cheaper to ship its component parts to Aqaba port in Jordan and bring them in via truck, rather than to utilize Basra Port. In addition, El Ebtida expressed frustration with the lack of technical expertise and understanding within the GOI relating to modern electrical design and engineering standards. The owners feel that in many cases, GOI ministries were un-informed and unaware of what they were purchasing. This lack of expertise and imperfect information, in El Ebtida's opinion, can result in the purchase of inferior products and designs driven primarily by price alone.

Comment

¶10. (SBU) We continue to see evidence that as the security environment improves, businessmen currently resident abroad are returning, albeit quietly. As it works to accelerate economic development and to diversify Iraq's economy away from its dependence on oil exports, the GOI needs to put in place the conditions that will convince other Iraqi businesses that it is time to bring their talent and capital back home.
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